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STATE FOR INL ERINDLER AND EB/ESC/TFS

JUSTICE FOR OIA AND AFMLS

TREASURY FOR FINCEN RMILLER

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SUBJECT: SINGAPORE 2006 INCSR SUBMISSION PART II - MONEY  
LAUNDERING AND FINANCIAL CRIMES

REF: A) STATE 210351 B) Singapore 3469

1. Per reftel instructions, Post hereby submits the draft of Part II of the 2006 International Narcotics Control Strategy Report - Money Laundering and Financial Crimes. We have also emailed the text of the draft report, in MS Word format and showing changes from last year's version, to INL. Ref B provided Part I.

2. Begin text of the report:

INCSR II - Singapore - Money Laundering and Financial Crimes

3. As a significant international financial and investment center, and in particular as a major offshore financial center, Singapore is vulnerable to potential launderers. Bank secrecy laws and the lack of routine currency reporting requirements make Singapore an attractive destination to drug traffickers, other criminals, and terrorist organizations and their supporters seeking to launder their money, and for flight capital. Money laundering occurs mainly in the offshore sector, but may also occur in the non-bank financial system, which includes large numbers of moneychangers and remittance agencies. Singapore has been a key player in the regional effort to stop terrorist financing.

4. Singapore should continue close monitoring of its domestic and offshore financial sectors. As a major financial center, it should also take measures to regulate and monitor large currency and bearer negotiable instrument movements into and out of the country, in line with the Financial Action Task Force's (FATF) Special Recommendation Nine, adopted in October 2004, that countries implement measures such as declaration systems, in order to detect cross-border currency smuggling. The conclusion of broad mutual legal assistance agreements is also important to further Singapore's ability to work internationally to counter money laundering and terrorist financing.

5. The Monetary Authority of Singapore (MAS), a semi-autonomous entity under the Ministry of Finance, serves as Singapore's Central Bank and financial sector regulator, particularly with respect to Singapore's anti-money laundering and efforts countering the financing of terrorism (AML/CFT). MAS performs extensive prudential and regulatory checks on all applicants for banking licenses, including whether banks are under adequate home country banking supervision. Banks must have clearly identified directors. Unlicensed banking transactions are illegal.

6. Singapore has a sizeable offshore financial sector. In 2005, there were 110 commercial banks in operation, including five Singapore and 24 foreign full banks, 46 offshore banks, and 35 wholesale banks; all offshore and wholesale banks are foreign-owned. Singapore does not permit shell banks, in either the domestic or offshore sectors.

7. In addition to banks offering trust, nominee, and fiduciary accounts, Singapore has 16 trust companies. All banks and trust companies, whether domestic or offshore, are subject to the same regulation, record keeping, and reporting requirements, including regarding money laundering and suspicious transactions. In August 2005, Singapore introduced regulations under the new Trust Companies Act (enacted in January 2005 to replace the Singapore Trustees Act) that mandated licensing of trust companies and MAS approval for appointments of managers and directors.

8. Singapore's approximately 600,000 foreign guest workers are the main users of alternative remittance systems. As of June 2005, there were 406 money-changers and 102 remittance agents. All must be licensed and are subject to the Money-Changing and Remittance Businesses Act (MCRBA), which includes requirements for record keeping and the filing of suspicious transaction reports. Firms must submit a

financial statement every three months and report the largest amount transmitted on a single day. They must also answer questions about their business and overseas partners. Unlicensed informal networks, such as hawala, are illegal.

19. In August 2005, Singapore amended the MCRBA to apply certain AML/CFT regulations to remittance licensees and money-changers engaged in inward remittance transactions. The Act eliminated sole proprietorships and required all remittance agents to incorporate under the Companies Act with a minimum paid-up capital of S\$100,000 (US\$60,000).

110. In April 2005, Singapore lifted its ban on casinos, paving the way for the development of integrated resorts with casinos; total investment in two planned resorts, both of which are expected to open in 2009, is estimated to exceed US\$4 billion. In October 2005, Singapore released for public comment draft legislation for the Casino Control Act. The Act calls for creation of a Casino Regulatory Authority and mandates certain cash reporting requirements. Internet gaming sites are illegal in Singapore.

111. As a matter of policy, Singapore strongly opposes money laundering and terrorist financing. Some structural gaps remain in financial regulation, however, which may hamper efforts to control these crimes. The Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalizes the laundering of proceeds from narcotics and 184 other categories of serious offenses, including ones committed overseas, which would be serious offenses if they had been committed in Singapore. As part of amendments to the CDSA that came into effect in September 2005, Singapore added two more categories of offenses. Despite these changes, Singapore's current list of designated predicate offenses does not include many of those in line with FATF Recommendation One.

112. Beginning in 2000, MAS began issuing a series of regulatory guidelines ("Notices") requiring banks to apply "know your customer" standards, adopt internal policies for staff compliance, and cooperate with Singapore enforcement agencies on money laundering cases. Similar guidelines exist for securities dealers and other financial service providers. Banks must obtain documentation such as passports or identity cards from all personal customers to verify names, permanent contact addresses, dates of birth, and nationalities, and to check the bona fides of company customers. The regulations specifically require that financial institutions obtain evidence of the identity of the beneficial owners of offshore companies or trusts. They also mandate specific record keeping and reporting requirements, outline examples of suspicious transactions that should prompt reporting, and establish mandatory intra-company point-of-contact and staff training requirements. Similar guidelines and notices exist for finance companies, merchant banks, life insurers, brokers, securities dealers, investment advisors, and futures brokers and advisors.

113. In January 2005, as part of a draft revision of its overall AML/CFT regulations for banks, MAS commenced a review of Notice 626, which proscribes banks from entering into, or continuing, correspondent banking relationships with shell banks, in line with the Revised FATF Forty Recommendations adopted in June 2003. Draft Notice 626, which is still under review, also mandates originator information on cross-border wire transfers, in line with FATF's Special Recommendation Seven on wire transfers. It also clarifies procedures for customer due diligence and includes a risk-based approach to customer due diligence, and mandates enhanced customer due diligence for foreign politically exposed persons. It furthermore extends coverage of the regulations to include terrorist financing activities. In addition to the revised Notice 626, Singapore is reviewing regulations governing other financial institutions and designated non-financial businesses and professions to bring them into conformity with FATF recommendations.

114. Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions, and are required to maintain adequate records. There are no reporting requirements, however, on amounts of currency brought into or taken out of Singapore. Singapore is considering implementation of FATF Special Recommendation Nine, which requires either a declaration or disclosure system for monitoring cross-border movement of currency and bearer negotiable instruments.

115. The Singapore Police's Suspicious Transaction Reporting Office (STRO) has served as the country's Financial Intelligence Unit (FIU) since January 2000. In December 2004, STRO concluded a Memorandum of Understanding (MOU) concerning the exchange of financial intelligence with its U.S. counterpart, FinCEN. STRO has also signed MOUs with counterparts in Australia, Belgium and Japan, and continues to actively seek MOUs with additional FIUs. To improve its

suspicious transaction reporting, STRO is developing a computerized system to allow electronic online submission of STRs, as well as the dissemination of AML/CFT material. It plans to encourage all financial institutions and relevant professions to eventually participate in this system. Procedural regulations and bank secrecy laws limit STRO's ability to provide information relating to financial crimes.

16. In 2005, Singapore announced the detention of three members of the regional terrorist group Jemaah Islamiya (JI) under the Internal Security Act (ISA). As of November 2005, 36 people with links to terrorist groups were in detention. Detainees include members of JI, who plotted to carry out attacks in Singapore in the past, and members of the Moro Islamic Liberation Front (MILF).

17. Singapore is an important participant in the regional effort to stop terrorist financing in Southeast Asia. The Terrorism (Suppression of Financing) Act that took effect January 29, 2003 criminalizes terrorist financing, although the provisions of the Act are actually much broader. In addition to making it a criminal offense to deal with terrorist property (including financial assets), the Act criminalizes the provision or collection of any property (including financial assets) with the intention that the property be used, or having reasonable grounds to believe that the property will be used, to commit any terrorist act or for various terrorist purposes.

18. The Act also provides that any person in Singapore, and every citizen of Singapore outside Singapore, who has information about any transaction or proposed transaction in respect of terrorist property, or who has information that he/she believes might be of material assistance in preventing a terrorism financing offense, must immediately inform the police. The Act gives the authorities the power to freeze and seize terrorist assets.

19. Based on an assessment of Singapore's financial sector published in April 2004, the International Monetary Fund and World Bank concluded that the country imposes few restrictions on intergovernmental terrorist financing-related mutual legal assistance, even in the absence of a Mutual Legal Assistance Treaty, because it is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The IMF, however, urged Singapore to improve its mutual legal assistance, noting serious limitations on assistance with the provision of bank records, search and seizure of evidence, restraining proceeds of crime, and the enforcement of foreign confiscation orders.

20. MAS has broad powers to direct financial institutions to comply with international terrorist financing obligations. These include UN Security Council Resolutions 1267, 1333, 1373, and 1390. In 2002, the MAS issued regulations to implement this authority. The regulations bar banks and financial institutions from providing resources and services of any kind that will benefit terrorists or terrorist financing. Financial institutions must notify the MAS immediately if they have in their possession, custody or control any property belonging to designated terrorists or any information on transactions involving terrorists' funds. The regulations apply to all branches and offices of any financial institutions incorporated in Singapore or incorporated outside of Singapore, but which are located in Singapore. The regulations include a periodically updated list of the entities and individuals on the UNSCR 1267 Sanctions Committee's consolidated list.

21. Singapore is party to the UN International Convention for the Suppression of the Financing of Terrorism; the Terrorism (Suppression of Financing) Act provides for mutual legal assistance in cases where there is no treaty, MOU or other agreement in force between Singapore and another country that is a party to this Convention. It is also party to the 1988 UN Drug Convention and has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. In addition to FATF, Singapore is a member of the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. Singapore hosted the June 2005 Plenary meeting of the FATF, the first time a FATF Plenary was convened in Southeast Asia. FATF is slated to review Singapore's AML/CFT regime, most likely in 2007.

22. To regulate law enforcement cooperation and facilitate information exchange, Singapore enacted the Mutual Assistance in Criminal Matters Act (MACMA) in March 2000. The MACMA provides for international cooperation on any of the 184 predicate "serious offenses" listed under the CDSA. The provisions of the MACMA apply to countries that have or have not concluded treaties, MOUs or other agreements with Singapore.

123. In November 2000, Singapore and the United States signed the Agreement Concerning the Investigation of Drug Trafficking Offenses and Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking. This was the first agreement concluded pursuant to the MACMA. This agreement, which entered into force in early 2001, facilitates the exchange of banking and corporate information on drug money laundering suspects and targets, including access to bank records. It also entails reciprocal honoring of seizure/forfeiture warrants. This agreement applies only to narcotics cases, and does not cover non-narcotics-related money laundering, terrorist financing, or financial fraud.

124. In May 2003, Singapore issued a regulation pursuant to the Terrorism Act and the MACMA that enables the government to provide legal assistance to the United States and the United Kingdom in matters related to terrorism financing offenses. Singapore concluded a mutual legal assistance agreement with Hong Kong in 2003. In 2004, it signed a treaty on mutual legal assistance in criminal matters with seven other members of ASEAN -- Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines and Vietnam. The treaty will come into effect after ratification by the respective governments; to date, Singapore, Malaysia, and Vietnam have ratified the treaty. In 2005, Singapore and India signed a similar treaty.

125. Charities in Singapore are subject to extensive government regulation, including close oversight and reporting requirements, and restrictions that limit the amount of funding that can be transferred out of Singapore. Singapore had a total of 1,747 registered charities as of December 2004. All charities must register with the Commissioner of Charities and submit governing documents outlining the charity's objectives and particulars on all trustees. The Commissioner of Charities has the power to investigate charities, search and seize records, restrict the transactions into which the charity can enter, suspend charity staff or trustees, and/or establish a scheme for the administration of the charity. Charities must keep detailed accounting records and retain them for at least seven years.

126. Beginning January 1, 2007, Singapore will implement tighter regulations under the Income Tax Act governing public fund-raising by charities. Charities authorized to receive tax-deductible donations will be required to disclose the amount of funds raised in excess of S\$1 million (US\$600,000), expenses incurred, and planned use of funds.

127. Under the Charities (Fund-raising Appeals for Foreign Charitable Purposes) Regulations 1994, any charity or person who wishes to conduct or participate in any fund raising for any foreign charitable purpose must apply for a permit. The applicant must demonstrate that at least 80 percent of the funds raised will be used in Singapore, although the Commissioner of Charities has discretion to allow for a lower percentage. Permit holders are subject to additional record keeping and reporting requirements, including details on every item of expenditure disbursed, amounts transmitted to persons outside Singapore, and names of recipients. The government issued 34 permits in 2004 related to fund-raising for foreign charitable purposes. There are no restrictions or direct reporting requirements on foreign donations to charities in Singapore.

128. Any person who wishes to engage in for-profit business, whether local or foreign, must register under the Companies Act. Every Singapore-incorporated company is required to have at least two directors, one of whom must be a resident in Singapore, and one or more company secretaries who must be resident in Singapore. There is no nationality requirement. A company incorporated in Singapore has the same status and powers as a natural person. Bearer shares are not permitted.

129. Singapore has eight free trade zones (FTZs) for seaborne cargo and two for airfreight regulated under the Free Trade Zone Act. The FTZs may be used for storage, repackaging of import an export cargo, assembly and other manufacturing activities approved by the Director General of Customs in conjunction with the Ministry of Finance.

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